

EMIR REFIT - NEW REQUIREMENTS ON TRANSACTION REPORTING

September 2022

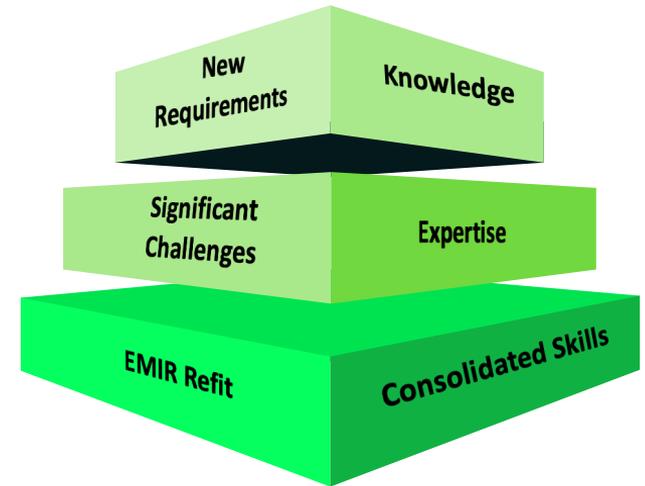
PURPOSE OF THE DOCUMENT

The **EMIR Refit regulation**, in place since 2019, continues to pose significant challenges for the parties involved. The publication of final guidelines on reporting is **expected to be published by Q4 2022** in the Official Journal of the European Commission, marking 2024 as a **possible deadline for its implementation**.

The recent updates published by the European Commission and the ESMA, related to transaction reporting, have highlighted the **importance of promptly analyzing the upcoming challenges** including new requirements such as **ISO 20022**, the introduction of **new fields** and the changes affecting the **reporting and reconciliation practices**.

As **Reply**, we have developed **consolidated skills based** on the study and analysis of the EMIR Refit regulation that enables us to **promptly identify the main changes**, and their **impacts on the customers' business operations** and provide the best solutions to the customers' needs. Moreover, we have a **consolidated roadmap** for all the stakeholders involved, to face future requirements and be compliant with the set deadlines.

Last but not least, we constantly **monitor and study innovative and disruptive IT solutions** stemming from the new **Regtech initiatives that could be applied to Financial markets** to promote transparency, consistency in the reporting practices and better regulatory monitoring.



CONTEXT

EMIR REFIT – TRANSACTION REPORTING



Context

The **EMIR Regulation** (European Market Infrastructure Regulation), entered into force in 2012 and amended by regulation EU 834/2019 EMIR Refit, aims to **increase transparency** in the OTC derivatives markets and to **reduce the systemic risk** due to the non-compliance of the derivatives' counterparties.

The regulation is divided in three main categories:



Reporting Obligation



Clearing



Risk Mitigation

Concerning the transaction reporting, **article 9** of EMIR establishes on both **counterparties** (FC and NFC) the obligation to report the details of the derivatives contracts concluded to one of the **Trade repository** recognized by the ESMA.



Updates

- ✓ **8 July 2021:** Consultation Paper “Draft Guidelines for reporting under EMIR”
- ✓ **10 June 2022:** Implemented and delegated acts for Regulation (EU) n. 648/2012 on OTC derivatives
- ⌚ Waiting for the publication of the Final Paper on reporting, data quality and data access by ESMA (expected date Q4 2022 (TBC))



Purpose

This document aims to **analyse the main impacts** of the recent **updates** published by the European Commission and the ESMA in order to promptly understand what are the main amendments to be done:

- Figuring out the **new requirements**
- Understanding the **new challenges**
- Complete all **necessary adjustments** to be compliant



AGENDA

EMIR REFIT – TRANSACTION REPORTING

- 01** | Regulatory Evolution
- 02** | New challenges bringing new changes
- 03** | Why Reply



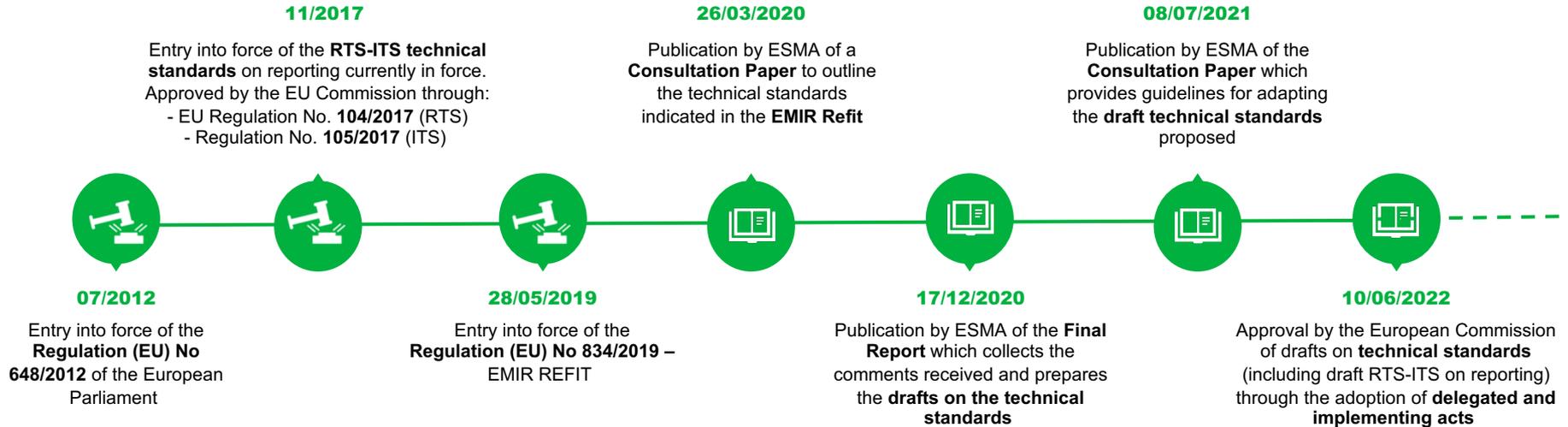
A person's hands are shown typing on a laptop keyboard. The image is overlaid with a blue tint and various digital graphics, including white lines and a hexagonal frame. The text "REGULATORY EVOLUTION" is prominently displayed in the center.

REGULATORY EVOLUTION



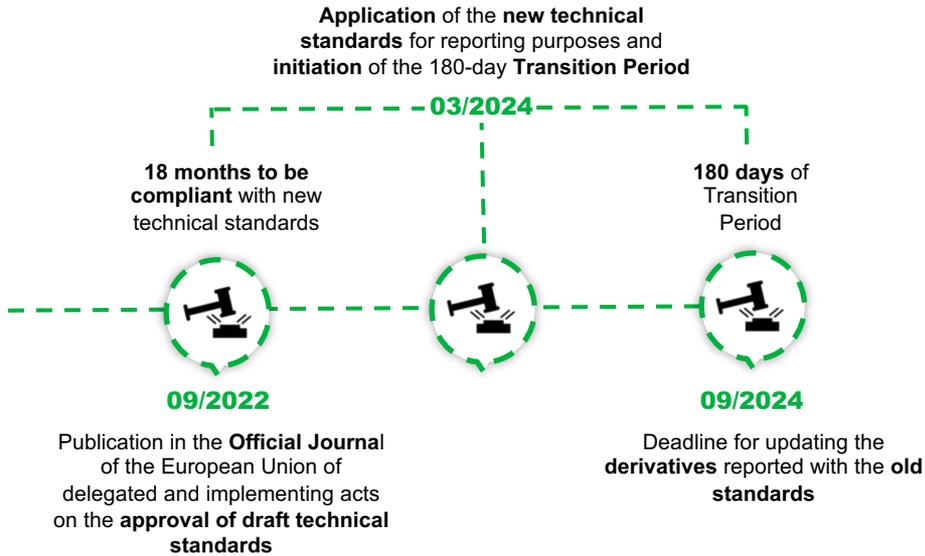
EMIR REFIT – TRANSACTION REPORTING...WHAT IT HAS BEEN DONE

REGULATORY EVOLUTION: FROM 2012 TILL TODAY



EMIR REFIT – TRANSACTION REPORTING...WHAT IT IS EXPECTED

REGULATORY EVOLUTION: NEXT STEPS



WHEN?

The **entry into force** of these standards falls on the **20th day of publication** in the **Official Journal** of the European Union.

The European Commission has also established that:

- The application of the new regulation will take place from the **first Monday** following the expiry of the **18 months**
- The commencement of the **180 days** of the **Transition Period** will start from the **date of application** of the technical standards



Expected entry into force



Expected dates



NEW CHANGES BRINGING NEW CHALLENGES

01 | ISO 20022

02 | New Technical Standards

03 | Crypto Asset

04 | UTI and UPI

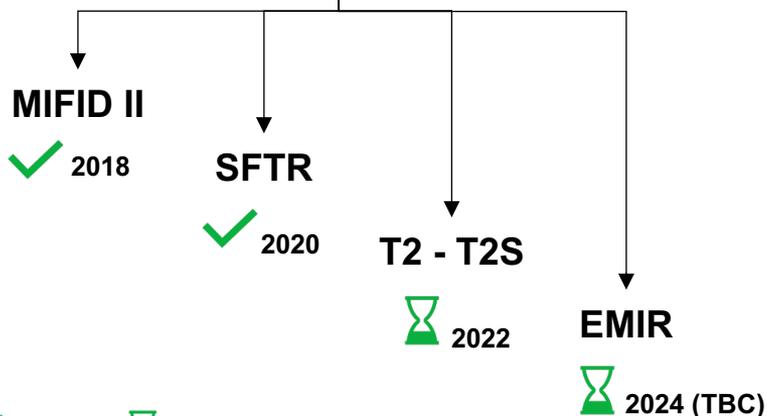
05 | Life Cycle Events

06 | RegTech solution to new challenges



EMIR REFIT – TRANSACTION REPORTING

NEW CHANGES BRINGING NEW CHALLENGES



✓ Go live ⌚ Expected go live

ISO 20022

ESMA proposes that **XML schemas** should comply with the **ISO 20022** methodology since this standard can be used both for the communication between the TRs and authorities and for the reporting from TR to counterparties, similar to the requirements already in place under the SFTR.

A fully standardised format for reporting is expected to:

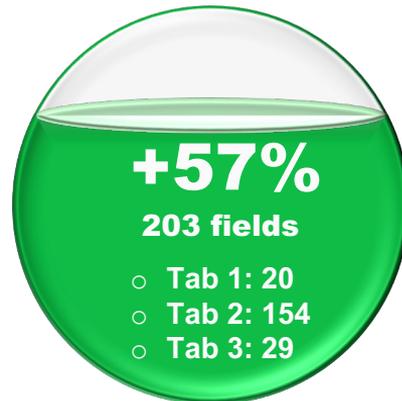
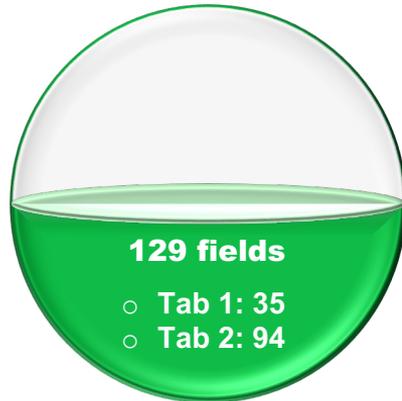
- Enhance **data quality** and **consistency**
- Eliminate the risk of discrepancies due to **inconsistent data**
- Reducing the need for **data cleaning**
- Enriching data for detailed **supervisory** and **economic analysis**
- Reduce **operational risks** by eliminating manual errors and improving control
- Improve **compliance** with regulations



EMIR REFIT – TRANSACTION REPORTING

NEW CHANGES BRINGING NEW CHALLENGES

Current Technical Standards



New Technical Standards

FIELDS

EMIR Refit introduces **new fields** that need to be reported reaching a final number of **203 fields**.

Among these 203 new fields, there are **148 fields** that need to be reconciled:

- **87 fields** will be reconciled at the start date of the reporting obligation
- **61 fields** will be reconciled after two years from the starting date of the reporting obligation

The goal is to verify that the **details** reported in the reports by both counterparties are **coherent**.



EMIR REFIT – TRANSACTION REPORTING

NEW CHANGES BRINGING NEW CHALLENGES



CRYPTO ASSETS

The EMIR REFIT has created a new field called '**Derivative based on crypto-assets**' aimed to identify crypto based transactions.

According to **ESMA**, the identifier helps regulators in understanding volumes and risks associated with the crypto asset derivatives.

In fact, the field will be a simple indicator populated with a **Boolean value**. Thus, it will allow to assess the trading volumes and outstanding risk in this type of instruments as well as to analyze how these instruments are currently reported.



EMIR REFIT – TRANSACTION REPORTING

NEW CHANGES BRINGING NEW CHALLENGES



STANDARDS

Alignment with international standards – in particular with the global guidance developed by **CPMI-IOSCO** on the definition, format and usage of key OTC derivatives data elements reported to TRs, including:

- The **Unique Transaction Identifier (UTI)**
- The **Unique Product Identifier (UPI)**
- Other critical data elements

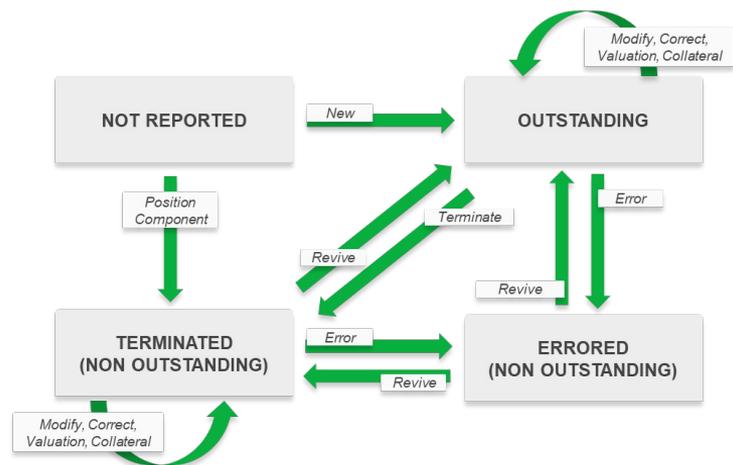
The introduction of these changes into the EU regulatory framework will foster global data **harmonisation** and it will facilitate compliance for those entities that are subject to **derivative reporting requirements** in non-EU jurisdictions



EMIR REFIT – TRANSACTION REPORTING

NEW CHANGES BRINGING NEW CHALLENGES

Trade Workflow



Trade status

Allowable Action Type

Status change

No status change

LIFECYCLE

To assure a **logical coherence** among the **different reports** concerning the same derivatives, **ESMA** proposes a **trade workflow** which reports the available and correct sequences of **action types**.

Together with the available Action Type, the **EMIR REFIT** is adding the **Event Type** to **lifecycles** in order to describe more in details the underlying business event. These changes aim to provide more **granularity** concerning the details of the event in the reporting. The available **combinations** between action types and event type are the following:

Action Type & Event Type

	Trade	Step In	PTRR	Early Termination	Clearing	Exercise	Allocation	Credit Event	Inclusion in Position	Corporate Event	Update	No Event Type
New	✓	✓	✓		✓	✓	✓		✓	✓		
Modify	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Correct												✓
Terminate		✓	✓	✓	✓	✓	✓					
Error												✓
Revive												✓
Valuation												✓
Margin Update												✓
Position Component												✓

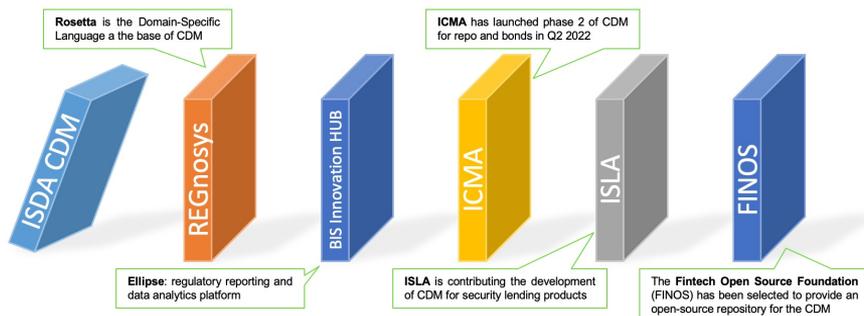


LOOKING AHEAD: REGTECH APPLICATION TO EMIR REFIT

Reply continuously explores innovative technology solutions that can be applied to financial regulations to improve the reporting process using a data-driven approach. The **ISDA Common Domain Model (CDM)** enables supervisors, regulators and regulated firms to streamline the financial-reporting chain by adopting machine-readable and machine-executable digital reporting.

Main contributors and several applications of ISDA CDM

The **ISDA Common Domain Model (CDM)** is a standardized, machine-readable and machine-executable blueprint for how financial products are traded and managed across the transaction lifecycle. It is represented as a **domain model** and distributed in **open source**. Since the first version of CDM, the **number of contributors** has increased and being an open source also its development and applications in the **capital market**.



BENEFITS OF ISDA CDM

- 1 The **inter-operability** and **straight-through** processing across firms, solutions and platforms reduce the need for reconciliation of data. This will have a positive impact on reporting the **lifecycle event** of a derivative.
- 2 The **financial technology innovation** provides a common, readily operational foundation for how technologies like smart contracts, cloud computing, and artificial intelligence can be applied to **financial markets**.
- 3 A better **regulatory oversight** promotes **transparency and alignment** between regulators and market participants and it enables **consistency** in regulatory reporting, by providing a standard representation of trade data and supporting machine executable reporting requirements.



WHY REPLY?



IT IS ESSENTIAL TO MONITOR THE REGULATORY UPDATES IN ORDER TO FORESEE THE CHANGES ...

...SO WE BUILT UP AN OBSERVATORY ON REGULATORY FINANCIAL REPORTING WITH A SPECIFIC FOCUS ON TRANSACTION REPORTING...



... AND WE ALSO HAVE A CONSOLIDATED ROADMAP ...

1. CONSULTATION & FINAL PAPER

- **Analyze** the new **RTS** and **ITS** technical standards
- **Manage new trades** according to what is defined in the **new RTS**
- **Study** the best strategy to manage the transition period for the **outstanding derivatives**

2. GAP ANALYSIS

- **Make** an in-depth **study** that will result in a **gap analysis** with the aim of highlighting the information and process gaps
- **Study** the new functionalities of **ISO 20022** and its benefits (i.e. streamlining data models)

3. IMPACTS & REMEDIATION ACTION

- **Analyze** the impacts at **business** and **IT** level
- **Define** the best **Remediation Actions** for each gap identified in order to be compliant with the new requirements

4. SOLUTIONS & EXECUTION

- **Perform the actions** to fill the gaps identified, for example:
 - ✓ Process **changes** (i.e. Reporting pre and post haircut)
 - ✓ Integration of the **information pool** (i.e. fields like Prior UTI or retrieving data for the correct valorization of action type e event type)
 - ✓ Invest in **new technological solutions** to integrate new report formats (i.e. application of the ISDA CDM)



**GO LIVE
2024**



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